



PUBLIC WATER SUPPLY DISTRICT NUMBER 1

NEWTON COUNTY, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-26
April 22, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from Public Water Supply District Number 1, Newton County, Missouri.

The district does not have a formal bidding policy and supporting documentation was not maintained for some expenditures.

The district paid \$18,000 per year to an individual for management and maintenance of the water district during fiscal years 1998 and 1997. The district has used the same individual for several years, and there is no documentation of when the district last solicited proposals for these services.

Formal bidding procedures for major purchases provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidders. The board agreed with our findings and plans to establish formal bidding policies and procedures.

A business owned by the son of a former board member who served until April 1998 was paid \$12,543 from February 1997 to January 1998, to install water meters and lines and fix water leaks. The district did not solicit bids for the services. In addition, the former board member indicated he abstained from voting on contracting with this individual to perform these services; however, the board minutes did not always document specifically whether he abstained from voting and, in one instance, the minutes indicate he voted to contract with his son.

Discussions and decisions concerning transactions where potential conflicts of interest exist should be completely documented so that the public has assurance that no district official has benefited improperly. In addition, we recommended the Board of Directors establish a policy which addresses these types of situations and provides a code of conduct for district officials. The board agreed and plans to adopt a code of conduct.

The board should adopt procedures for independent reviews of billings, collections, delinquent accounts, canceled checks, and bank reconciliations. The method of payment is not recorded on billing stubs. Improvements are needed in recording hookup and meter connection fees. The amount of water primacy fees remitted to the state may not have been computed correctly. The district

board agreed and plans to adopt a code of conduct.

The board should adopt procedures for independent reviews of billings, collections, delinquent accounts, canceled checks, and bank reconciliations. The method of payment is not recorded on billing stubs. Improvements are needed in recording hookup and meter connection fees. The amount of water primacy fees remitted to the state may not have been computed correctly. The district has not maintained adequate records of refundable meter deposits.

We recommend, and the board agrees, that independent reviews be performed and documented of the billing, receipt, deposit, and delinquent account records. We also recommended dual signatures be required on checks or independent monthly reviews be established of canceled checks and bank reconciliations. The board has said monthly independent reviews of canceled checks and bank reconciliations will be conducted.

Although the district's bylaws state that records shall be subject to inspection by any person owning land or residing within the district we recommended, and the board agreed to establish, a formal policy regarding public access to district records which complies with state law. This policy should establish a person to contact and an address to mail requests for access to records.

The district contracted with an independent CPA to perform a review of agreed-upon procedures for the period January 1, 1997 through July 31, 1998; however, the district does not obtain audits as required by state law. The district has indicated that audits will now be performed according to state law.

The district's annual budgets were not fully in compliance with state law requirements. For example, the budgets did not include a budget message nor comparative statements of revenues and expenditures for the two preceding years as required. Instead, only one year of comparative data was included. In addition, the Board of Directors does not periodically compare actual revenues and expenditures to budgeted amounts. As a result, the actual expenditures exceeded budgeted amounts by \$5,344 for the year ended December 31, 1997. The district says budgets will meet state law requirements and all expenditures over budgeted amounts will be approved by the board.

PUBLIC WATER SUPPLY DISTRICT NUMBER 1
NEWTON COUNTY, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Public Water Supply District Number 1
Newton County
Newtonia, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit Public Water Supply District Number 1, Newton County, Missouri. Our audit of the district included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

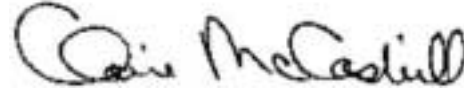
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes and various district financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the district.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district and was not subjected to auditing procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of Public Water Supply District Number 1, Newton County, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

January 29, 1999

HISTORY AND ORGANIZATION

PUBLIC WATER SUPPLY DISTRICT NUMBER 1
 NEWTON COUNTY, MISSOURI
 HISTORY AND ORGANIZATION

Public Water Supply District Number 1, Newton County, Missouri, was established in 1965 and currently serves approximately 190 customers. The Board of Directors consists of five members who serve three-year terms. The Board of Directors elects a President and Vice President from the board membership. The board members and other officials receive no compensation.

The board members and other officials at December 31, 1998 were:

<u>Board Members</u>	<u>Term Expires</u>	<u>Surety Bond</u>
Eugene Miller, Board President (1)	April 2001	\$
Lawrence Frencken Jr., Board Member (1)	April 2001	
Rocky Ford, Board Member (1)	April 2000	
Gene Stickler, Vice President (1)	April 2000	
Vacant, Board Member (1) (2)	April 1999	

- (1) In April 1998, the board made an election to stagger the terms of the board members, so two members were elected to three-year terms, two members were elected to two-year terms, and one member was elected to a one-year term. Future terms will be for three years. The outgoing board members in April 1998 were Brian Lewis (President), David Wormington, Curt Dabbs, Leon Garner, and Harry Thomlinson.
- (2) Linda Bruns resigned August 1998 and Jack Watson was appointed in January 1999.

<u>Other Officials</u>	
Tom Higdon, Board Treasurer	50,000
Wilma Miller, Board Secretary	

A summary of the financial activity of the Public Water Supply District Number 1, Newton County, Missouri, for the two years ended December 31, 1998, is presented on the next page:

	Year Ended December 31,	
	1998	1997
RECEIPTS:		
Sales	\$ 33,517	31,030
Interest	1,530	1,575
New installations	100	1,000
Other	240	0
Total Receipts	<u>35,387</u>	<u>33,605</u>
DISBURSEMENTS:		
Service contract	18,000	18,000
Sales tax	316	302
Accounting fees	500	0
Legal fees	0	401
Insurance	815	742
Repairs and maintenance	7,143	10,799
Supplies	9	1,993
Office supplies and printing	0	259
Miscellaneous	709	348
Total Disbursements	<u>27,492</u>	<u>32,844</u>
Receipts Over (Under) Disbursements	7,895	761
Cash Balance, January 1,	<u>56,708</u>	<u>55,947</u>
Cash Balance, December 31,	<u><u>\$ 64,603</u></u>	<u><u>56,708</u></u>

MANAGEMENT ADVISORY REPORT

PUBLIC WATER SUPPLY DISTRICT NUMBER 1
NEWTON COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Expenditures (pages 8-9)

The district does not have a formal bidding policy and supporting documentation was not maintained for some expenditures. The son of a former board member was paid \$12,543 for various services and it appears the former board member voted to approve contracting with his son in one instance.

2. Accounting Controls and Procedures (pages 9-11)

The board should adopt procedures for independent reviews of billings, collections, delinquent accounts, canceled checks, and bank reconciliations. The method of payment is not recorded on billing stubs. Improvements are needed in recording hookup and meter connection fees. The amount of water primacy fees remitted to the state may not have been computed correctly. The district has not maintained adequate records of refundable meter deposits.

3. Minutes and Records (page 11)

Board minutes are not always signed. The district should establish a policy regarding public access to district records which complies with state law.

4. Audits and Budgets (page 12)

The district does not obtain audits as required by state law. Improvements are needed in the district's budgeting documents and procedures.

PUBLIC WATER SUPPLY DISTRICT NUMBER 1
NEWTON COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	Expenditures
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- A. The district does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained for pump repairs (\$4,814 paid to one vendor in June and July 1998), and installing and fixing water lines and meters (\$12,543 paid to one vendor from February 1997 to January 1998).

In addition, the district paid \$18,000 per year to an individual for management and maintenance of the water district during fiscal years 1998 and 1997. The district has used the same individual for several years, and there is no documentation of when the district last solicited proposals for these services.

Formal bidding procedures for major purchases provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the district's business. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids and proposals received and reasons noted why the bid or proposal was selected.

- B. Vendor invoices or other supporting documentation were not retained for some expenditures. These expenditures included \$250 for bond coverage and \$865 for water line and meter installation. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of public funds.
- C. A business owned by the son of a former board member who served until April 1998 was paid \$12,543 from February 1997 to January 1998, to install water meters and lines and fix water leaks. As noted in Part A., the district did not solicit bids for the services. In addition, the former board member indicated he abstained from voting on contracting with this individual to perform these services; however, the board minutes did not always document specifically whether he abstained from voting and, in one instance, the minutes indicate he voted to contract with his son.

Discussions and decisions concerning transactions where potential conflicts of interest exist should be completely documented so that the public has assurance that no district official has benefited improperly. In addition, the Board of Directors should consider establishing a policy which addresses these types of situations and provides a code of conduct for district officials.

WE RECOMMEND the Board of Directors:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids or proposals.
- B. Require adequate supporting documentation for all expenditures.
- C. Avoid actual or apparent conflicts of interest. Also, in the future, if a relative of a board member is considered to perform services for the district, that member should abstain from voting on the hiring and that action should be adequately documented in the board minutes. In addition, the board should consider adopting a code of conduct for district officials.

AUDITEE'S RESPONSE

- A. *We will establish formal bidding policies and procedures.*
- B. *Supporting documentation for all expenditures will be maintained.*
- C. *We agree with the conflict of interest recommendation and plan to adopt a code of conduct.*

2. Accounting Controls and Procedures
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- A. The district's management and maintenance contractor is responsible for reading water meters, preparing bills, and reconciling billings to collections and delinquent accounts. The contractor hires an individual to receive and deposit water payments. District officials do not regularly review the billing, receipt, and delinquent account records. To ensure billings and collections are properly recorded and to ensure proper follow-up action is taken on delinquent accounts, the board should establish procedures for formal monthly independent reviews of the billing, receipt, deposit, and delinquent account records.
- B. The board treasurer usually signs all checks, and checks require only one signature. In addition, the treasurer is responsible for reviewing canceled checks and preparing monthly bank reconciliations. To ensure checks represent valid disbursements, the board should require dual signatures on all checks (at least one signature should be a board member) or provide for formal monthly independent reviews of canceled checks and bank reconciliations.
- C. The district receives cash and checks for the payment of water bills. The billing stubs which accompany the payment serve as the district's initial record of the receipt; however, the method of payment (cash, check, money order, etc.) is not recorded.

To ensure the proper handling and safeguarding of district monies, the method of payment should be indicated on the billing stubs and the composition of receipts should be reconciled to the composition of bank deposits.

- D. The district does not keep adequate records of hookup and meter connection fees collected. The district does not keep a listing of new hookups and meter connections or whether fee amounts have been paid or are still due. It appears the district collected and deposited at least \$200 in meter connection fees during the year ending December 31, 1998; however, only \$100 was recorded as new installation fees on the district's financial statement.

To ensure all hookup and meter connection fees are collected and properly accounted for, the district should maintain a central record of the appropriate fees due. The district should keep a record of all payments received, reconcile payments received to payments due, and follow up on any unpaid amounts.

- E. The Department of Natural Resources (DNR) requires the district to pay an annual primacy fee based on the number and type of service connections. The district in turn charges all water customers a \$2 annual primacy fee.

In August 1998, the district estimated there were 179 customers with service connections and (after collection discounts) remitted \$354 to the DNR. However, in October 1998, the district billed the primacy fee to approximately 193 customers totaling \$386. The district should review this matter and ensure the proper amount was remitted to the DNR and ensure future remittances are based on the actual number of service connections.

- F. District customers were required to pay a \$5 meter deposit when the district began providing services during the 1960's. The board discontinued the deposit requirements but currently has approximately \$900 in a savings account for the deposits. The district does not maintain a listing of deposits received, refunds, and balances. District officials estimated that approximately 40 current customers paid the \$5 deposit.

The district should attempt to identify the amount of meter deposits still on hand and prepare a listing of all deposits. Because meter deposits are no longer required, the board should consider refunding the deposits or applying the deposits to current billings and closing out the savings account.

WE RECOMMEND the Board of Directors:

- A. Ensure monthly independent reviews are performed and documented of the billing, receipt, deposit, and delinquent account records and ensure adequate follow up is performed on delinquent accounts.
- B. Require dual signatures on checks or establish monthly independent reviews of canceled checks and bank reconciliations.
- C. Record the method of payment on corresponding billing stubs received and reconcile the composition of receipts to bank deposits.
- D. Ensure records are maintained for all hookup and meter connection fees collected.

- E. Ensure the appropriate amount of primacy fees is remitted to the DNR.
- F. Attempt to identify all meter deposits held by the district. The board should consider refunding all meter deposits or applying them to current billings and close the savings account.

AUDITEE'S RESPONSE

- A. *Monthly independent reviews will be performed.*
- B. *Monthly independent reviews of canceled checks and bank reconciliations will be conducted.*
- C. *We agree.*
- D. *We agree to monitor and keep records of hookup fees.*
- E. *Primacy fees will reflect actual amounts.*
- F. *We plan to refund all meter deposits and close the meter deposit account.*

3.	Minutes and Records
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- A. The board minutes are usually prepared by the board secretary or a board member acting as secretary, but the minutes are not always signed. The board minutes should be signed by the preparer and by the Board President to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- B. Although the district's bylaws state that records shall be subject to inspection by any person owning land or residing within the district, the board should establish a formal policy regarding public access to district records which complies with state law. This policy should establish a person to contact and an address to mail requests for access to records. Section 610.023, RSMo Supp. 1998, lists requirements for making district records available to the public.

WE RECOMMEND the Board of Directors:

- A. Ensure board minutes are signed by the Secretary and Board President to attest to their completeness and accuracy.
- B. Establish policies and procedures regarding public access to district records which comply with state law.

AUDITEE'S RESPONSE

- A. *The secretary and president will sign minutes.*
- B. *We will establish a policy regarding public access to district records as provided by state law.*

4.**Audits and Budgets**

- A. The district contracted with an independent CPA to perform a review of agreed-upon procedures for the period January 1, 1997 through July 31, 1998; however, the district does not obtain audits as required by Section 247.080, RSMo 1994, and district by-laws.
- B. The district's annual budgets were not fully in compliance with Chapter 67, RSMo. For example, the budgets did not include a budget message nor comparative statements of revenues and expenditures for the two preceding years as required. Instead, only one year of comparative data was included. In addition, the Board of Directors does not periodically compare actual revenues and expenditures to budgeted amounts. As a result, the actual expenditures exceeded budgeted amounts by \$5,344 for the year ended December 31, 1997.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. Section 67.010, RSMo 1994, lists items required in the budget, including a budget message and the two prior years' actual revenues and expenditures. Section 67.040, RSMo 1994, prohibits expenditures in excess of budgeted amounts unless budget amendments are approved by the board.

WE RECOMMEND the Board of Directors:

- A. Obtain audits as required by state law.
- B. Prepare complete and accurate annual budget documents that contain all information required by state law and/or necessary to provide a complete financial plan for the district. In addition, actual expenditures should not exceed budgeted amounts unless appropriate budget amendments are approved.

AUDITEE'S RESPONSE

- A. *Audits will be performed according to state law.*
- B. *Budgets will meet state law requirements and all expenditures over budgeted amounts will be approved by the board.*

This report is intended for the information of the district's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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